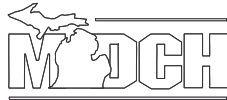


2009 Certificate of Need Seminar

FINANCE REVIEWS



Michigan Department
of Community Health



Presentation Summary

Perry Smith

Finance Reviews – General Overview

- MCL 333.22225(2)(b)
- Finance Forms
 - Nonsubstantive Reviews
 - Substantive/Comparative Reviews
 - Amendments
- Required Documents
- Key Points
- RS Means Cost Calculation
- Future Direction for Finance Reviews
 - Finance Administrative Rules Draft
- Bond and HELP Loan Reviews

Finance General Overview **MCL 333.22225(2)(b)**

“...in order for an application to be approved under this part, an applicant shall also demonstrate to the reasonable satisfaction of the department all of the following:

- (b) With respect to the **financial aspects of the proposed project**, that each of the following is met:
 - (i) The capital costs of the proposed project will result in the least costly total annual operating costs.
 - (ii) Funds are available to meet the capital and operating needs of the proposed project.
 - (iii) The proposed project utilizes the least costly method of financing, in light of available alternatives.
 - (iv) In the case of a construction project, the applicant stipulates that the applicant will competitively bid capital expenditures among qualified contractors or alternatively, the applicant is proposing an alternative to competitive bidding that will achieve substantially the same results as competitive bidding.”

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Finance General Overview continued... **Finance Forms**

Finance forms based on type of review:

- ◆ Nonsubstantive
 - CON-110-F Finance Components
 - CON-110-D Acquire, Replace & Relocate Equipment
- ◆ Substantive/Comparatives
 - CON-300 Project Description
 - CON-1100 General Financing Questions
 - CON-1110, 1114 & 1118 Revenue & Expense Reports
- ◆ Amendments
 - CON-144 Amendment

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Finance General Overview continued... **Required Documents**

Things that will help in your financial review...

- ♦ Audited financial statements or the unaudited documents below
 - Balance sheet
 - Income statement
 - Cash flow statement
 - Notes to the financial statements
 - Bank statement
- ♦ Signed and dated vendor quotes within 6 months
- ♦ Lease and purchase agreements
- ♦ Other documentation
 - Pledge/gift letters (must be detailed and already committed)
 - Loan and bond letters

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Finance General Overview continued... **Key Points**

Things that will help in your financial review...

- ♦ Information must be consistent across forms
- ♦ Project description should be detailed – e.g., provide detailed specs of physical plant (number of floors used in RS Means calculation)
- ♦ Project costs should match project description – e.g., project description includes renovation of existing space but no renovation costs are listed.
- ♦ New construction and renovation square footage should be listed and consistent in forms

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Finance General Overview continued... More Key Points

Things that will help in your financial review...

- ◆ Make sure Project Costs and Source of Funds equal and sum correctly
- ◆ Lease and purchase agreements terms should be consistent with Project Costs listed – department will calculate simple costs using documents to verify line item costs
- ◆ CON is valid only for terms of lease agreement accounted for in costs – e.g., lease is for 10 years with two 5-year renewals, but cost only listed for 10 years – CON is only valid for 10 years
- ◆ Covered clinical equipment should not be listed as fixed or moveable equipment

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Finance General Overview continued... Finance Forms & Information

The screenshot shows the Michigan Department of Community Health website. The main navigation bar includes links for Home, Online Services, Training, and Contact DCH. The left sidebar lists various services such as HIPAA, Health Professional Shortage Areas, Institutional Review Board, State Licensure, Lab Services, Public Health Preparedness, Communicable & Chronic Diseases, Departmental Forms, Community Mental Health Services, Certificate of Need, Toxic Substances, Substance Abuse Prevention, Birth, Death, Marriage and Divorce Records, Physical Health & Prevention, Pregnant Women, Children & Families, Mental Health & Substance Abuse, and Health Care Coverage. The main content area is divided into several sections: Essential Links (Advisories, CON Online Application System, Contact Us, DCH-CON ListServ), Commission Links (Meetings, Minutes, and Audio Transcripts, Commission Overview and Members, Standard Advisory Committees (SAC), New Medical Technology Advisory Committee (NEMTAC), Resource Documents), Common Links (Standards/Related Documents, Administrative Rules, Part 222, Part 201, Quick Find Index, FOIA Policy, Disclaimer), Program Links (Annual Survey, Electronic Forms, Filing a CON Application, Financial Review Information, 2008 Program Brochure, Frequently Asked Questions), Report Links (Other Regulatory Agencies, Artistic Records), and a Search bar. The right sidebar lists various services such as Departments/Agencies, Online Services, Surveys, and Quick Links (News Releases, Health Information Technology (HIT) Commission, State Job Opportunities, Office of Long-Term Care Support and Services, Influenza in Michigan, Informed Consent for Abortion, Shortcuts to DCH Web Topics, DCH Brochures Available for Download, Emerging Diseases, and GENIS - Genealogical Data). Arrows point from the text 'Forms link' to the 'Filing a CON Application' link in the Program Links section, and from the text 'Information' to the 'Financial Review Information' link in the Program Links section.

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Finance General Overview continued...

2009 RS Means Calculation

Project Location	Zip Codes	Location Factor	Hospital 2-3 Story	Hospital 4-8 Story	Med Offc 1 Story	Med Offc 2 Story
Ann Arbor	481	0.98	399.01	394.06	199.77	272.10
Battle Creek	490	0.92	374.58	369.93	187.54	255.44
Bay City	487	0.92	374.58	369.93	187.54	255.44
Detroit	482	1.03	419.36	414.16	209.97	285.98
Flint	485-485	0.97	394.94	390.04	197.73	269.32
Gaylord	497	0.84	342.01	337.76	171.23	233.23
Max cost per sq. Ft. —→			407.15	402.10	203.85	277.65

CONTINGENCIES: - Must be 12% or less of the total of the following items
 New Construction
 Renovations & Remodeling
 Fixed Equipment
 Architect/Engineering Fees

Architect/Engineering Fees: - Must be 13% or less of the total of the following items
 New Construction
 Renovations & Remodeling
 Fixed Equipment

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Future Direction for Finance Reviews

- ◆ Administrative Rules for Finance Reviews
- ◆ Electronic Finance Report in E-serve

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Draft CON Administrative Rules – Proposed Finance Section

R 325.9210 Finance reviews; procedures.

- ♦ Rule 210. (1) A person applying for a certificate of need for a project must provide the following information as applicable:
- ♦ (a) audited financial statements for existing providers that includes balance sheet, income statement, statement of cash flow, and footnotes to the financial statements,
- ♦ (b) evidence of secured capital funding for new providers,
- ♦ (c) verification for all sources of funds dated within 30 days of submission of the application,
- ♦ (d) signed vendor quote dated within six months of application submission for applications involving medical equipment,

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Proposed Finance Section continued...

R 325.9210 Finance reviews; procedures.

- ♦ Rule 210. (1) continued...
- ♦ (e) all applicable lease and purchase agreements,
- ♦ (f) designated funds must specify what type of funds are used (e.g., cash, bond, etc.), and
- ♦ (g) the market value for any asset must be verified by an unrelated party.
- ♦ (2) For construction projects, the applicant will competitively bid capital expenditures among qualified contractors or alternatively, the applicant is proposing an alternative to competitive bidding that will achieve substantially the same results as competitive bidding.

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Proposed Finance Section continued...

- ♦ (3) An applicant utilizing future operations (e.g. capital operating lease) as a source of funds must demonstrate the following:
 - (a) current bank or financial institution statement or balance and dated within 30 days of submission of the application,
 - (b) third party verification of a bank loan, HELP loan, or other equivalent source of funding.
- ♦ (4) The department's finance review must be conducted using the completed application and any other information the department considers relevant to the decision and under all applicable provisions in the certificate of need review standards and the code, including information which becomes available or developments which occur after the date an application is deemed complete.

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Proposed Finance Section continued...

- ♦ (5) Before issuing a proposed decision, the bureau must notify an applicant of all information that the department relied upon in conducting the department's review. If the department relies on information, other than submitted by the applicant in its application, the bureau or department must cite in the proposed or final decision letter, as applicable, the information it relied upon. The department must make this information available to the public upon request.
- ♦ (6) This rule does not limit the department's authority to consider all available financial information relevant to the department's review of an application.

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Bond and HELP Loan Reviews

- ♦ State law requires Michigan State Hospital Finance Authority (MSHFA) to assure any bond item has CON approval, where applicable, prior to issuance of any bond or HELP loan request.
- ♦ Eligible borrowers and items determined by MSHFA
- ♦ CON review is only to determine if a CON was required for the line items listed in the bond request.
 - If a line item does require a CON, then a review is done to determine if a CON was granted and, if so, was bond financing used as a Source of Funds.
 - If bond financing was not identified as a Source of Funds, then the project must be amended and approved prior to issuance of any bond waiver letter or the project must be 100% complete using the funding source as described in the approval letter.

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Bond and HELP Loan Reviews continued...

- ♦ Requests should be submitted in a timely manner to allow for Department review. At a minimum, we request at least 30 days to review bond/HELP loan requests.
- ♦ Requests should be provided in the following format to assure expedited review:
 - List individual line items by facility, clinical areas, non-clinical areas, equipment only and year project was done
 - Also provide address of each facility
 - Provide CON No. where applicable
- ♦ Review of capital expenditure projects only apply to licensed health facilities (hospitals, nursing homes, psych hospitals, surgery centers)

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Sample Waiver Letter

This is in response to your request dated October 22, 2009, for capital expenditures totaling \$4,000,000 for Hospital System A, the corporate parent of Hospital A (\$1,000,000), Hospital – B (\$2,000,000), Hospital C (\$1,000,000), and the need for Certificate of Need (CON) review/approval. Based on the information, as submitted, it appears that the items:

- do not fall under the Department's definition of "covered capital expenditure;"
- fall below the covered capital expenditure thresholds for clinical service areas, of a single project;
- do not meet the definition of initiation, replacement, or expansion of a "covered clinical service";
- already have Certificate of Need approval listing bond financing or HELP loan as a source of funds; and/or
- the location does not meet the definition of a "health facility" as defined under Part 222 of P.A. 368 of 1978, as amended.

Therefore, none of the items requires further Certificate of Need review and approval.

This waiver is not to be construed as an approval from Health Facilities Evaluation Section or Radiation Safety Section. The applicant is required to contact the Michigan Department of Community Health, Bureau of Health Systems, Division of Health Facilities and Services at (517) 241-3408 or Radiation Safety Section at (517) 241-1989 prior to proceeding with the project to determine if plan review, issuance of a construction permit, and/or an opening survey is required.

A change in the scope of the project(s), or other information not provided as part of the current package, may require further review. In either of these events, it is the requestor's responsibility to seek review and CON approval where necessary.

Michigan State Hospital Finance Authority (MSHFA) Thomas Letavis

- ◆ Created in 1969 by the Hospital Finance Authority Act
- ◆ Purpose is to lend money to nonprofit hospitals and health care providers
- ◆ Provides access to capital markets at competitive interest rates
- ◆ Issues bonds and loans the proceeds to healthcare institutions



Use of Bond Proceeds

- ◆ Acquisition of property, plant, equipment
- ◆ Refinancing or refunding of indebtedness
- ◆ Project costs
- ◆ Costs of Issuance
- ◆ Debt Service Reserve Fund
- ◆ Capitalized Interest

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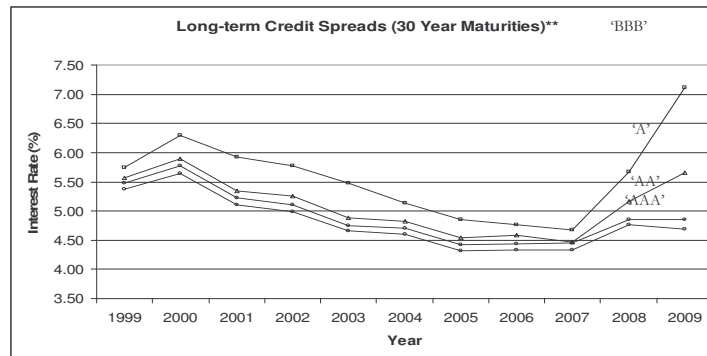
Certificate of Need and MSHFA

- ◆ Act 38 of 1969 requires a Certificate of Need or a waiver prior to bond issuance
- ◆ Application goes to the Michigan Department of Community Health
- ◆ Borrower makes the request for the CON or waiver
- ◆ MSHFA will not pass an authorizing resolution without a CON or waiver
- ◆ Intent to use bond financing for project costs must be included in CON

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Credit Spreads At 10 year Highs

The chart below illustrates the interest rate differential between 'AAA' rated borrowers and 'AA', 'A', and 'BBB' borrowers.



** Bond Buyer G.O. 'AAA' Index

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Questions & Comments

Perry Smith, Financial Analyst

Certificate of Need

Michigan Department of Community Health

Phone: (517) 241-2606

Email: SmithP17@michigan.gov

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